

**NORTHEAST IOWA COMMUNITY-
BASED DAIRY FOUNDATION**

FINANCIAL REPORT

JUNE 30, 2013

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**INDEPENDENT AUDITOR'S REPORT
ON THE FINANCIAL STATEMENTS**

To the Board of Directors
Northeast Iowa Community-Based Dairy Foundation
Calmar, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of Northeast Iowa Community-Based Dairy Foundation (a nonprofit corporation), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northeast Iowa Community-Based Dairy Foundation as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information on page 15 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2013, on our consideration of Northeast Iowa Community-Based Dairy Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Northeast Iowa Community-Based Dairy Foundation's internal control over financial reporting and compliance.

Hacher, Nelson & Co., P.C.

Decorah, Iowa
November 14, 2013

NORTHEAST IOWA COMMUNITY-BASED DAIRY FOUNDATION
 STATEMENTS OF FINANCIAL POSITION
 June 30, 2013 and 2012

ASSETS

	2013	2012
CURRENT ASSETS		
Cash and cash equivalents	\$ 660,485	\$ 550,616
Accounts receivable		
Accounts	61,012	56,357
Funds due from Northeast Iowa Community College	291,488	291,488
Promises receivable	1,000	1,000
Feed inventory	198,270	213,349
Gift shop inventory	2,627	2,361
Prepaid lease expense	1,977	
Prepaid crop expense	55,710	59,507
	1,272,569	1,174,678
CASH, restricted for special purposes	4,530	4,501
FUNDS, restricted for debt retirement	164,385	164,385
	168,915	168,886
PROPERTY AND EQUIPMENT, net of accumulated depreciation	2,811,059	2,942,652
OTHER ASSETS		
Debt issuance costs, net of accumulated amortization	72,553	76,584
Deferred patronage dividends	67,156	64,825
Capital retainments	36,159	36,159
	175,868	177,568
Total assets	\$ 4,428,411	\$ 4,463,784
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 382,907	\$ 250,543
Current portion of long-term debt	158,008	154,022
Accrued interest	13,835	14,004
	554,750	418,569
LONG-TERM DEBT, less current maturities above	1,796,992	1,870,978
Total liabilities	2,351,742	2,289,547
NET ASSETS		
Unrestricted	2,071,139	2,168,736
Temporarily restricted	5,530	5,501
Total net assets	2,076,669	2,174,237
Total liabilities and net assets	\$ 4,428,411	\$ 4,463,784

See Notes to Financial Statements.

NORTHEAST IOWA COMMUNITY-BASED DAIRY FOUNDATION
 STATEMENTS OF ACTIVITIES
 For the Years Ended June 30, 2013 and 2012

	2013	2012
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUES, GAINS, AND OTHER SUPPORT		
Contributions	\$ 41,731	\$ 68,330
In-kind contributions	293,245	271,749
Grants		13,358
Memberships	550	3,300
Sales	1,329,393	1,260,926
Interest	1,171	2,180
Rental income		10,002
Program support and reimbursements	134,200	138,000
Gain on sale of assets	37,712	57,494
Other	30,905	22,674
	1,868,907	1,848,013
EXPENSES AND LOSSES		
General and administrative	62,664	55,082
Program expenses	1,900,193	1,844,712
Fundraising	3,647	6,580
	1,966,504	1,906,374
Decrease in unrestricted net assets	(97,597)	(58,361)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	29	42
Increase in temporarily restricted net assets	29	42
Decrease in net assets	(97,568)	(58,319)
NET ASSETS, beginning of year	2,174,237	2,232,556
NET ASSETS, end of year	\$ 2,076,669	\$ 2,174,237

See Notes to Financial Statements.

NORTHEAST IOWA COMMUNITY-BASED DAIRY FOUNDATION
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
(Decrease) in net assets	\$ (97,568)	\$ (58,319)
Adjustments to reconcile net (decrease) in net assets to net cash provided by (used in) operating activities		
Depreciation	213,344	210,067
(Gain) on sale of fixed assets	(37,712)	(57,494)
Changes in:		
Accounts receivable	(4,655)	(432,110)
Prepaid expenses	1,820	(8,487)
Inventory	14,813	(5,165)
Accounts payable	132,364	(66,674)
Other accruals, net	(169)	13,745
Net cash provided by (used in) operating activities	<u>222,237</u>	<u>(404,437)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Patronage dividends reinvested	(2,331)	(4,700)
Purchase of property and equipment	(112,718)	(171,631)
Proceeds from sale of livestock, buildings, and equipment	72,710	80,650
Net cash used in investing activities	<u>(42,339)</u>	<u>(95,681)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Debt issuance costs		(80,615)
Issuance of long-term debt		2,095,000
Payments on long-term debt	(70,000)	(1,664,344)
Net cash (used in) provided by financing activities	<u>(70,000)</u>	<u>350,041</u>
Net increase (decrease) in cash	109,898	(150,077)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>555,117</u>	<u>705,194</u>
End of year	<u>\$ 665,015</u>	<u>\$ 555,117</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for interest	<u>\$ 31,523</u>	<u>\$ 57,586</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Disposal of fixed assets		
Property sold or scrapped		
Cost	\$ 117,612	\$ 97,150
Less accumulated depreciation	<u>82,614</u>	<u>73,995</u>
Book value	<u>\$ 34,998</u>	<u>\$ 23,155</u>
Equipment traded		
Cost	\$ 25,529	
Less accumulated depreciation	<u>10,957</u>	
Book value	<u>\$ 14,572</u>	

See Notes to Financial Statements.

NORTHEAST IOWA COMMUNITY-BASED DAIRY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

1. Purpose of Foundation and Significant Accounting Policies

a. Purpose

Northeast Iowa Community-Based Dairy Foundation (the Foundation) is a nonprofit corporation classified by the Internal Revenue Service as tax-exempt under Section 501(c)(3) and as a publicly supported organization under Sections 509(a)(1) and 170(b)(1)(A)(vi) of the Internal Revenue Code of 1986. The Foundation is committed to educating students, farmers, milk processors and others in technologies and methods to enhance their dairy related operations. The Foundation is supported through milk sales, contributions, program support from various state sources, and state and federal grants. Final approval of its annual program and budget plan rests with its Board of Directors.

b. Method of Accounting

The accompanying financial statements of Northeast Iowa Community-Based Dairy Foundation have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

c. Financial Statement Presentation

The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted based upon the existence or absence of donor-imposed restrictions.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. The Foundation has not received any contributions with donor-imposed restrictions that would result in permanently restricted net assets.

d. Cash and Cash Equivalents

For purposes of reporting the statements of cash flows, the Foundation includes all cash accounts, money market accounts, and certificates of deposit with a maturity of three months or less as cash and cash equivalents on the accompanying statements of financial position.

e. Accounts Receivable

Accounts receivable consists mainly of charges for milk sales paid by milk processors and reimbursements from state and federal governments.

The Foundation considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is maintained. If amounts become uncollectible, they will be charged to operations when that determination is made. Accounts are considered uncollectible based on how recently payments have been received, on individual credit evaluation, and on specific circumstances of the customer.

1. Purpose of Foundation and Significant Accounting Policies (Continued)

f. Promises Receivable

Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Contributions restricted by the donor are reported as increases in unrestricted net assets if the restrictions are met in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction is met or expires on temporarily restricted net assets, they are reclassified to unrestricted net assets.

The Foundation provides an allowance for doubtful promises receivable, as needed, for contributions deemed uncollectible. The allowance is based on prior years' experience and management's analysis of specific promises made. There were no allowances as of June 30, 2013 and 2012, respectively. The Foundation discounts promises to give in future years to their net present value. The Foundation uses a discount rate of 6% for this calculation.

g. Inventories

Inventories consist of feed and other operating supplies which are stated at cost on a first-in, first-out method. In accordance with U.S. generally accepted accounting principles, the crop-input costs are capitalized and included as prepaid expense on the statements of financial position. The Foundation also has merchandise held for resale in the gift shop.

h. Property and Equipment

Property and equipment acquired by the Foundation are considered to be owned by the Foundation. The Foundation follows the practice of capitalizing, at cost, all expenses for property and equipment in excess of \$2,500. The Foundation follows the practice of capitalizing, at fair value, all property and equipment donated to the Foundation in excess of \$2,500. Depreciation is computed by the straight-line method with estimated useful lives of the assets generally as follows:

	<u>Years</u>
Land improvements	20
Buildings	7-39
Equipment/livestock	5-10

The Foundation reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends, and prospects, as well as the effects of obsolescence, demand, competition, and other economic factors.

i. Contributions and Revenue

Contributions in the statements of activities consist of contributions and grants received or promised by private donors and federal, state, and local governments. Revenues are classified as milk sales, rent, or other revenues.

1. Purpose of Foundation and Significant Accounting Policies (Continued)

i. Contributions and Revenue (Continued)

Revenue from milk sales and other sources are recognized when services are provided or materials are shipped. Donated noncash items are recorded as contributions at their estimated fair values at the date of donation.

Program support and reimbursements are resources received in support of the Foundation's education and research activities (see Note 8).

j. Capital Retainments

Capital retainments are patronage allocations received from cooperatives and are carried at the face amount of the allocations.

k. Income Taxes

Northeast Iowa Community-Based Dairy Foundation is a nonprofit corporation qualifying for exempt status under Section 501(c)(3) of the Internal Revenue Code and is not required to pay income tax. The Foundation is required to file an annual informational return for organizations exempt from income tax. In addition, the Foundation has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Code.

l. Sales Taxes

The Foundation is considered sales tax exempt under Iowa Code Section 423.3(17), as applicable.

m. Advertising

The Foundation uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred. During the years ended June 30, 2013 and 2012, advertising costs totaled \$10,832 and \$10,495, respectively.

n. Concentrations of Credit Risk

Financial instruments that potentially subject the Foundation to significant concentrations of credit risk consist principally of accounts receivables and cash. Receivables are primarily from milk processors for milk sales, the State of Iowa and Iowa State University for reimbursements. These receivables are uncollateralized.

The Foundation's cash balances on deposit with various local financial institutions fluctuate during the year and at times may exceed the Federal Deposit Insurance Corporation's \$250,000 insurance limit per financial institution. Management continually monitors the financial condition of these financial institutions along with the cash balances maintained on deposit with them in order to minimize this potential risk.

A concentration of credit risk exists since net income relies on feed costs, market price of milk and access to milk processors located in the Northeast Iowa region.

NOTES TO FINANCIAL STATEMENTS

1. Purpose of Foundation and Significant Accounting Policies (Continued)

o. Management Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

p. Subsequent Events

Subsequent events were evaluated through November 14, 2013, which is the date the financial statements were available to be issued.

2. Unconditional Promises

Unconditional promises at June 30, 2013 and 2012 are as follows:

	2013	2012
Net unconditional promises to give	\$ 1,000	\$ 1,000
Current unconditional promises to give	\$ 1,000	\$ 1,000

3. Property and Equipment

Major classifications of property and equipment as of June 30, 2013 and 2012 are as follows:

	2013	2012
Land and land improvements	\$ 564,704	\$ 564,704
Buildings	3,388,813	3,381,848
Equipment and machinery	743,917	761,302
Livestock	292,670	294,070
	4,990,104	5,001,924
Less accumulated depreciation	2,179,045	2,059,272
	\$ 2,811,059	\$ 2,942,652

Depreciation expense for the Foundation for the years ended June 30, 2013 and 2012 totaled \$213,344 and \$210,067, respectively.

The Foundation also has cattle on consignment from Northeast Iowa Community College. As of June 30, 2013, the Foundation had 100 head from Northeast Iowa Community College.

NOTES TO FINANCIAL STATEMENTS

4. Debt

The Foundation's obligation under long-term debt at June 30, 2013 consists of the following:

Capital Lease, Financing Obligation-Sale-Leaseback

In August 2011, the Foundation completed the refinancing of its real property under a sale-leaseback arrangement with Northeast Iowa Community College. The transaction has been accounted for as a financing arrangement, wherein the property remains on the Foundation's books and will continue to be depreciated. The lease proceeds of \$2,095,000 were utilized as follows: pay-off existing revenue bonds on the land and buildings in the amount of \$1,561,000, \$289,000 held in reserve for facility/equipment acquisition and/or improvements, \$164,385 reserved to meet debt service requirements (purchase reserve payments) and the balance used for transaction expenses. The Foundation is leasing back the property over the next twenty years, in which the Foundation retains the option to purchase land and buildings from the College for a price of \$1,850,000. The purchase reserve payments made as of the closing date of the purchase will be used as a credit against the purchase price. The purchase option is available starting on April 30, 2018. The Foundation has assigned \$13,000 of their monthly milk sales to make the annual purchase reserve payments and annual rental fee payments per the lease agreement.

Future minimum purchase reserve payments and service fee payments under the agreement with the College are as follows:

	Purchase Reserve Payment	Annual Service Fees	Total
Year ended June 30,			
2014	\$ 105,008	\$ 53,000	\$ 158,008
2015	102,857	53,500	156,357
2016	100,708	54,000	154,708
2017	102,995	54,500	157,495
2018	105,135	55,000	160,135
2019-2023	516,305	284,000	800,305
2024-2028	535,195	299,000	834,195
2029-2031	325,900	186,600	512,500
Minimum lease payments	\$ 1,894,103	\$ 1,039,600	2,933,703
Less imputed interest/service fees			(978,703)
			\$ 1,955,000

NOTES TO FINANCIAL STATEMENTS

4. **Debt (Continued)**

A summary of the changes in debt, for the year ended June 30, 2013 is as follows:

	Balance June 30, 2012	Issued	(Paid)	Balance June 30, 2013
Capital lease	\$ 2,025,000	\$ None	\$ (70,000)	\$ 1,955,000

Interest expense for the years ended June 30, 2013 and 2012 totaled \$35,385 and \$71,331, respectively. No interest costs were capitalized during the years ended June 30, 2013 and 2012. The Foundation is amortizing \$289,000 of costs related to the capital lease over the term of the lease, which is recorded as interest expense.

5. **Net Assets**

Net assets of the Foundation consist of the following:

Unrestricted

Undesignated

These net assets are available for general obligations of the Foundation

Temporarily restricted

For purpose restrictions

These net assets are restricted by donors to be used for some specific purpose

For time restrictions

These net assets are restricted by donors until the scheduled promises are received at some future date

Details of net assets at June 30, 2013 and 2012 are as follows:

	2013	2012
Unrestricted net assets		
Undesignated	\$ 2,071,139	\$ 2,168,736
Temporarily restricted		
For purpose restrictions, beginning farmer program	4,530	4,501
For time restrictions, planned giving	1,000	1,000
	5,530	5,501
Total temporarily restricted		
	\$ 2,076,669	\$ 2,174,237

NOTES TO FINANCIAL STATEMENTS

6. Leases

The Foundation has two leases for land, one is a three year lease, expiring in August 2013, and the other is a one year lease, expiring in December 2013. Rent expense was \$45,694 and \$69,108 for the years ended June 30, 2013 and 2012, respectively.

Future minimum lease payments under the farm leases are as follows:

Year ended June 30,	
2014	<u>\$ 19,803</u>

The Foundation also leases grazing land from Northeast Iowa Community College for \$1.00/year.

7. Risk Management

Northeast Iowa Community-Based Dairy Foundation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are minimized by the purchase of commercial insurance from third parties. The Foundation assumes liability for any deductibles and claims in excess of coverage limitations.

8. 28E Agreement

The Foundation entered into a 28E agreement with Northeast Iowa Community College (the College) and Iowa State University (ISU). The College will provide 1) access to the College's existing dairy facilities, 2) support for one full-time dairy manager, and 3) academic and educational programs for certificates and degrees. ISU will provide resources to establish the dairy education and research programs. For the years ending June 30, 2013 and 2012, ISU provided the Foundation with program support and reimbursements totaling \$134,200 and \$138,000, respectively. ISU commits money to the Foundation for program support, on a year to year basis, based on the amount of available funds received from the State of Iowa. The Foundation will conduct fund-raising campaigns, incur all expenses related to maintaining the functions of the Foundation, and apply all funds obtained in the daily course of business towards the purpose of the Foundation.

9. Fiscal Agent Agreement

Under the lease agreement entered into by the Foundation and the College during the year ended June 30, 2012, the College provides human resource, administrative and financial services and pays monthly bills for the Foundation at no cost to the Foundation. The Foundation also received in-kind services from Northeast Iowa Community College in the amount of \$120,122 and \$113,530 for the years ended June 30, 2013 and 2012, respectively (see Note 14).

10. Contingent Liabilities

The Foundation participates in a number of federal and state programs that are fully or partially funded by grants received from governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If the grantor government disallows expenditures due to noncompliance with grant program regulations, the Foundation may be required to reimburse the grantor government. As of June 30, 2013 significant amounts of grant expenditures have not been audited by granting authorities, but the Foundation believes disallowed expenditures, if any, based on subsequent audits will not have a material effect on the financial position of the Foundation.

NOTES TO FINANCIAL STATEMENTS

11. Related Party Transactions

Name, Title and Business Connection	Transaction/Description	2013	2012
Dennis Cline, Board Member, Accelerated Genetics	Services and supplies	\$ 6,739	
Rob Hahn, Board Member, Elanco Animal Health	Supplies	\$ 25,901	\$ 25,120
Lynn Hageman, Farm Manager, L&J Hageman Dairy, Inc.	Rent and custom hire	\$ 47,821	\$ 50,788
Ryan Hageman, son of Farm Manager	Supplies and rent	\$ 3,568	\$ 568
Josh Corcoran, Board Member	Sale of Swing Parlor	\$ 7,500	

12. Commitments

The Foundation has entered into an agreement with a local farmer for custom work with the field operations. The Foundation has also entered into a five year agreement with Accelerated Genetics to provide semen and other breeding services.

13. Collections

In conformity with the practice followed by many Foundations, artifacts donated are not included in the statements of financial position. The Foundation does not capitalize its collections; the values of the objects acquired by gift are not recognized in the statements of activities.

The Foundation's collections are on display and are used by researchers, students and others who are interested in studying the history of the dairy industry. The Foundation maintains the collection to ensure it is protected and preserved.

14. Donated Services

The Foundation receives the services of various research and management personnel provided by other entities (see Note 8). Donated services are recognized when they are received if the services either (a) create or enhance a nonfinancial asset or (b) require specialized skills, are provided by entities or persons possessing those skills, and would need to be purchased if they were not donated. The value of donated services recognized as revenues in the accompanying statements totaled \$221,057 and \$243,726 for the years ended June 30, 2013 and 2012, respectively.

15. Donated Assets

Donated breeding stock is recorded as contributions at their estimated fair values over their useful lives. The Foundation had occupied 180 acres of farmland used for grazing and crops. The estimated fair rental value of the farmland was reported as contributions in the accompanying financial statements. The Foundation had also occupied the dairy facilities and barn. The estimated fair rental value of these buildings was reported as contributions in the accompanying financial statements. The amount contributed totaled \$72,188 and \$73,900 for the years ended June 30, 2013 and 2012, respectively.

16. Subsequent Events

In July 2013 the Foundation received a pledge for \$100,000 over five years to be used to reimburse staff salaries.

In October 2013 the Foundation entered into a preliminary agreement with Northeast Iowa Community College to repay the cost of the robotic dairy project in the amount of \$1,380,000 at a variable interest rate of 0.75% from July 1, 2014 to June 30, 2034.

NORTHEAST IOWA COMMUNITY-BASED DAIRY FOUNDATION
STATEMENTS OF PROGRAM EXPENSES INFORMATION
For the Years Ended June 30, 2013 and 2012

	2013	2012
PROGRAM EXPENSES		
Contract services	\$ 381,383	\$ 362,670
Cost of cull/calves sales	34,188	40,950
Crop expense	207,668	214,911
Dairy expense	147,229	171,733
Dairy supplies	107,104	84,037
Feed and grain	457,763	350,943
Gift shop		1,269
Insurance	35,718	28,042
Interest	35,385	71,331
Rent	136,194	144,500
Marketing	10,832	10,495
Miscellaneous	3,397	3,513
Repair and maintenance	74,866	84,620
Property taxes		4,765
Travel	840	1,983
Utilities	54,282	58,883
Depreciation and amortization	213,344	210,067
	<u>\$ 1,900,193</u>	<u>\$ 1,844,712</u>

See Independent Auditor's Report.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Northeast Iowa Community-Based Dairy Foundation
Calmar, Iowa

We have audited, in accordance with the U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Northeast Iowa Community-Based Dairy Foundation (the Foundation), (a nonprofit corporation), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 14, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Northeast Iowa Community-Based Dairy Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Northeast Iowa Community-Based Dairy Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northeast Iowa Community-Based Dairy Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hasher, Nelson & Co., P.C.

Decorah, Iowa
November 14, 2013